

**Joint Legislative Audit and Review Commission  
of the Virginia General Assembly**



**Review of Elementary and  
Secondary School Funding**

**Staff Briefing  
November 20, 2001**

# **JLARC Staff for the Study**

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# Presentation Outline

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- ☒ **Introduction and Summary of Findings**
- ☐ **Background**
- ☐ **SOQ Requirements and the Funding of SOQ Costs (Tier One)**
- ☐ **Funding Options to Enhance State Support for Education (Tiers Two and Three)**
- ☐ **Framework for Determining State and Local Cost Responsibilities**

# State Standards of Quality (SOQ)

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- **Virginia's Standards of Quality (SOQ) provide an important foundation for the State's role in funding elementary and secondary education**
- **The SOQ are minimum requirements for school divisions to provide a program of high quality for public elementary and secondary education**

# **General Assembly's Constitutional Responsibilities Regarding Public Schools**

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- **“Provide for a system of free public elementary and secondary schools for all children” and “seek to ensure that an educational program of high quality is established and continually maintained”**
- **“Determine the manner in which funds are to be provided for the cost of maintaining an educational program meeting the prescribed Standards of Quality”**
- **“Provide for the apportionment of the cost of such program between the Commonwealth and the local units of government...”**

# Overview of Funding Components

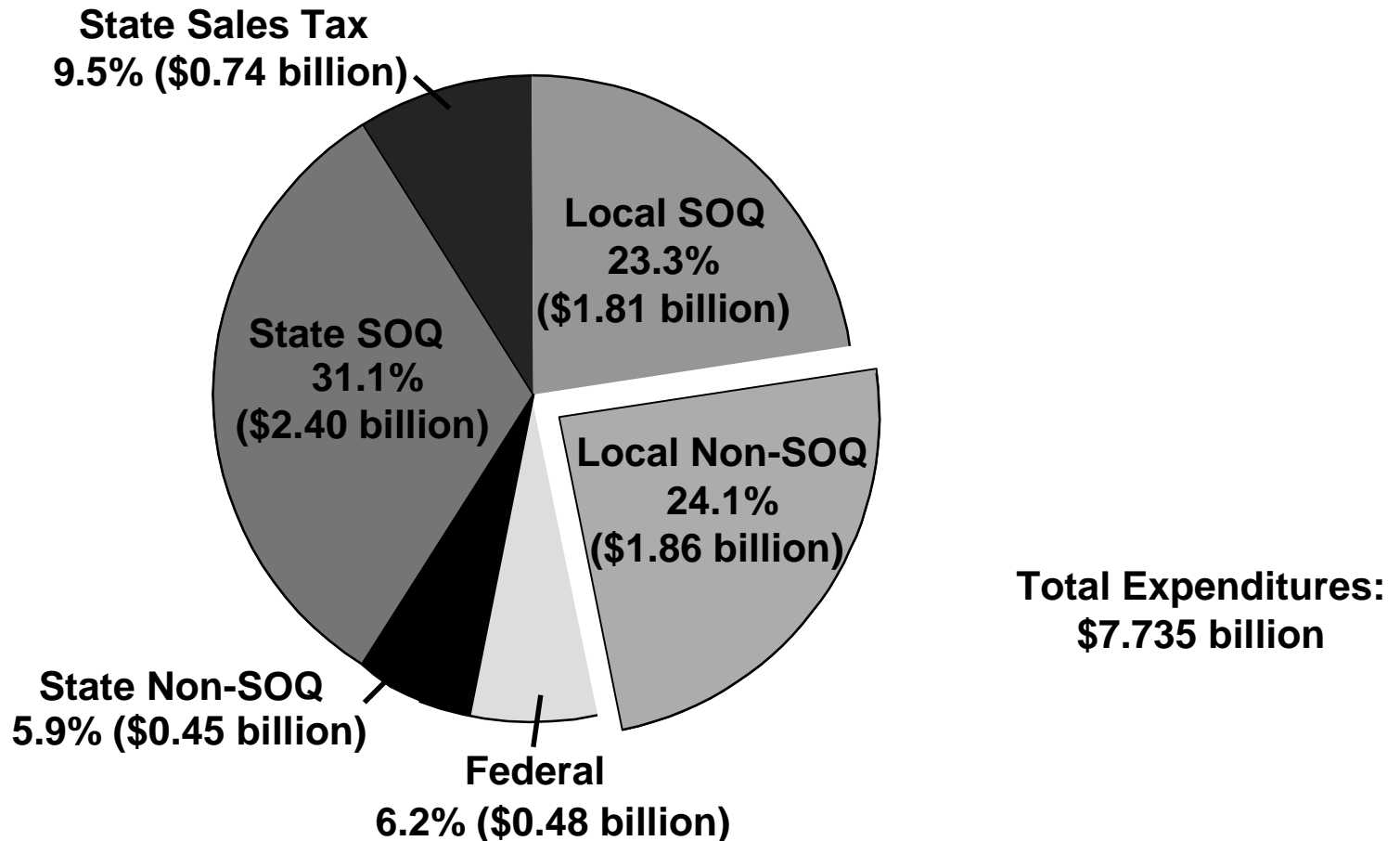
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- **State and local funding for elementary and secondary education supports:**
  - SOQ operating costs (costs for the State's foundation program),
  - non-SOQ operating costs, and
  - capital facility costs
- **The State provides more than half of SOQ funding.**
- **Localities provide the majority of non-SOQ operational funding, and capital facility costs**
- **Non-SOQ funds are provided to fund objectives which exceed the requirements of the SOQ**

# Locality Discretionary Expenditures Accounted for about 24 Percent of Total Operating Costs in FY 2000

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Total expenditures for all operations were about \$7.735 billion. (In addition, capital facility expenditures were about \$743 million). Total local expenditures based on JLARC staff analysis of DOE spreadsheet on required local expenditures, and DOE revenue and expenditure data.

# Study Mandate

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- **Local governments have expressed concerns over time about the adequacy of State funding support**
- **Resolutions from 2000 Session called for a study of funding for elementary and secondary education**
- **SJR 232, HJR 173, HJR 195, and HJR 248:**
  - **“many school divisions surpass the minimum requirements of the Standards of Quality, [and] burgeoning educational costs often exceed the Commonwealth’s share of the cost of public education, straining local resources”**
  - **called for JLARC study of SOQ funding and local educational programs and services that exceed the SOQ (last JLARC review of SOQ costs and funding was in mid-1980s)**



# **Study Mandate**

## **(continued)**

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- **Language requiring the study initially included in Appropriation Act from 2000 Session; resolutions not reported as study anticipated through the Act**
- **Appropriation Act language vetoed April 2000**
- **Veto sustained, but General Assembly leadership indicated study would be conducted pursuant to a charge by the Commission**
- **At May 2000 meeting, JLARC members unanimously approved the study**

# Study Issues

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- **How is the State estimating SOQ costs? Are all localities fully funding their share of SOQ costs?**
- **Are there any adjustments to the SOQ methodology that appear appropriate?**
- **Are there “funding gaps” for State-mandated or sponsored programs?**
- **To what extent is funding distributed based on local ability to pay?**

# **Study Issues**

## **(continued)**

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- **In what ways are localities exceeding SOQ costs?**
- **If the General Assembly wishes to enhance the level of State support, what options are available and what are the associated costs?**
- **What factors should be considered in assessing the priority to give to various options for increasing State support?**

# Research Activities

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- **Forums to obtain public input on study issues**
  - eight regions
  - two meetings in each region (a meeting with Superintendents and Finance Officers, and a public meeting)
- **Analysis of Annual School Report data, survey data collected by JLARC staff, and other available data**
- **Review and use of SOQ funding model and calculations**
- **Consideration of ability to pay issues**
- **Development of options for the General Assembly to consider and spreadsheets to estimate option costs**

# Survey of School Divisions

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- JLARC staff developed a survey of school divisions which was administered from the Fall of 2000 to the Spring of 2001
- Examples of data obtained include:
  - FTE classroom teachers, by type of teacher (regular classroom, resource teacher, special education teacher, and other types), by source of funds, and by grade level as appropriate
  - experience levels of teachers, provisionally-licensed teachers, applicants per teaching vacancy
  - salary increases for instructional, administrative, and support staff
  - maximum class sizes by grade at elementary level, by subject at secondary level
- Major effort by school divisions
- Final response rate was 100 percent

# Study Options Presented in Three Tiers

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- **Tier One**: the estimate for meeting SOQ costs, using cost estimation principles which are considered to be most accurate for use over the long term. It is compatible with State standards, and prevailing division practices where standards are not quantified
- **Tier Two**: enhanced instructional staffing practices and at-risk pre-school funding
- **Tier Three**: enhanced State support of capital costs based on a per-pupil cost for debt service, and enhanced teacher salaries, including costs of moving toward the national average teacher salary

# State Share Assumptions in Options

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- Options use a 55 percent State share of operating costs remaining after the deduction of sales tax, and up to a 50 percent share of debt service costs
- The State's percentage share of costs is a policy choice that is made by the General Assembly

# Summary of Study Findings

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## ■ There are some valid reasons for local concern about education funding issues:

- Increasing number of pupils since FY 1985
- Increasing school facility costs
- Relative stagnancy in estimated true value of real property
- State car tax relief based on 1997 tax rates and policies
- Resource needs related to Standards of Learning (SOL)
- State funding, in constant dollars per-pupil:
  - was down during the 1990s from the FY 1990 level, and did not recover until FY 1998
  - showed a brief growth trend beginning in FY 1999, with the onset of Lottery and school construction grants programs
  - may begin to trend downward again due to State fiscal difficulties



# Summary of Study Findings

## (continued)

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- In FY 2000, local funding for non-SOQ purposes exceeded local funding for SOQ purposes
- Reasons for the size of locality operating cost expenditures above the SOQ include the following
  - Staffing: State standards for instructional staff recognize fewer positions than are provided by most school divisions
  - Cost Estimation Changes: a number of changes in the State's cost estimation approach made during the 1990s dampen SOQ costs
  - Salaries: some large school divisions, employing a majority of teachers, pay average teacher salary levels above the typical level across school divisions, and thereby incur substantial non-SOQ salary costs

# Summary of Study Findings

## (continued)

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- DOE staff's preliminary estimates are that SOQ cost payments, stemming from routine updates of the SOQ cost model, will cost the State about \$377 million in the upcoming biennium
- Based on recent data corrections, JLARC staff's current figure for the impact of routine updates to SOQ costs for the biennium is about \$389 million

# Summary of Study Findings

## (continued)

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- Changes in State budget assumptions, most made during the early 1990s, have dampened the size of the SOQ cost estimates which are produced
- JLARC staff sought a more realistic estimate of costs
- JLARC staff estimate the following State cost increases for the 2002-2004 biennium (a two year cost increase) over FY 2002 planned allocations, to meet SOQ costs:
  - As mentioned, cost for routine re-basing of the SOQ cost model: \$ 389 million
  - JLARC staff proposed adjustments in estimating current SOQ costs + \$ 671 million
  - Estimated SOQ Costs (Tier One) \$1.060 billion

# **Summary of Study Findings**

## **(continued)**

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- **The study provides additional options for the General Assembly's consideration, to enhance State support for public education**
- **These options address:**
  - **State recognition of elementary resource teachers and the secondary planning period requirement in cost calculations**
  - **State recognition of higher instructional staffing levels (for example, in order to provide smaller class sizes), as provided by most school divisions**
  - **State funding of at-risk pre-school programs**
  - **State support for capital facility purposes**
  - **teacher salaries, including movement toward the national average salary**

# Presentation Outline

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- ☒ Background
- ☐ SOQ Requirements and the Funding of SOQ Costs (Tier One)
- ☐ Funding Options for Enhanced State Support for Education (Tiers Two and Three)
- ☐ Framework for Determining State and Local Cost Responsibilities

# **Pressure Upon Local Governments in Funding Education**

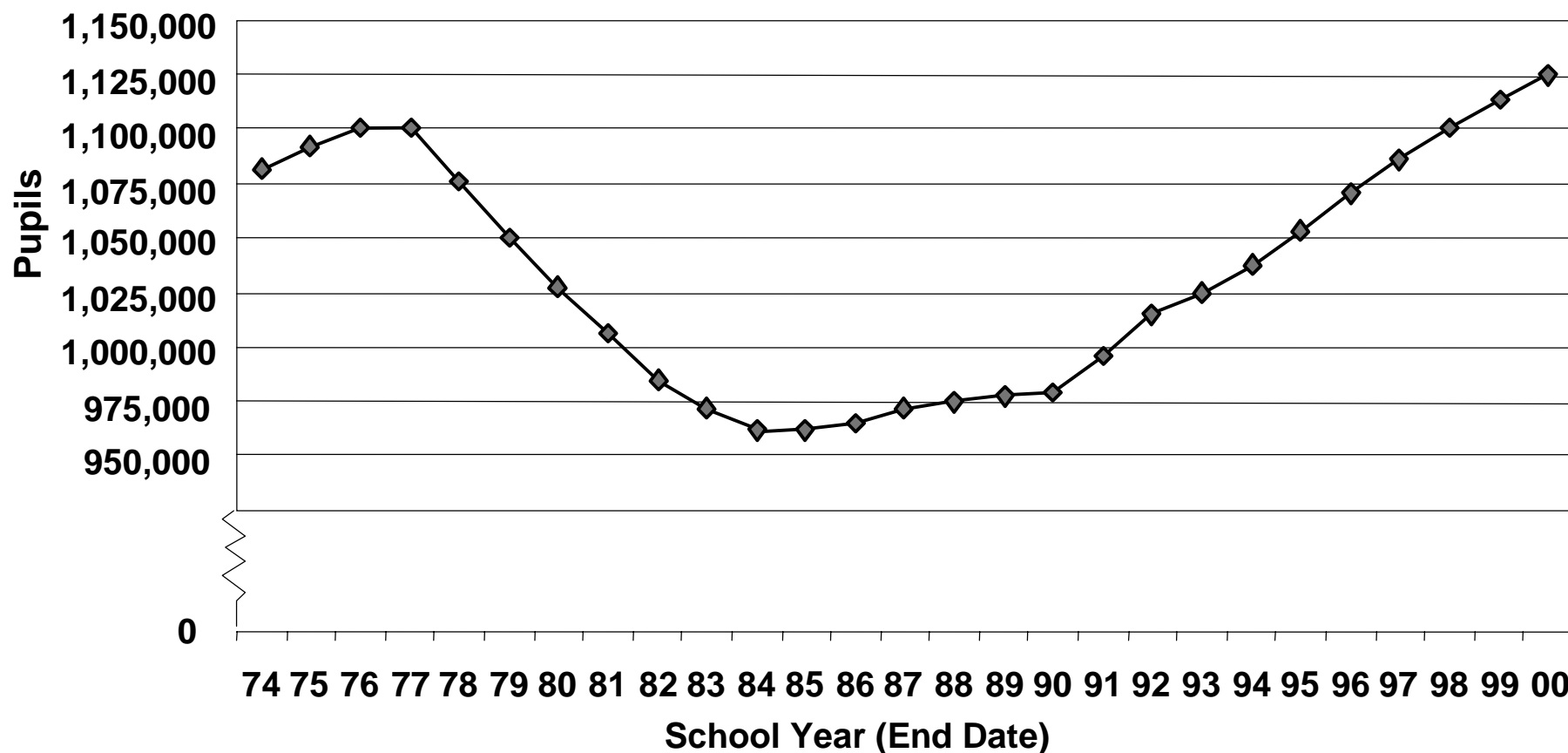
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- **Many local governments have long argued that the State is not a full partner in funding elementary and secondary education, pointing to differences between the expenditures that are made, and what the State recognizes in its standards and funding**
- **The State's perspective generally has been that its primary obligation is to fund the State-required SOQ, not help defray the costs of all local expenditure decisions**
- **Several trends, however, have increased the pressure faced by local governments in education funding.**

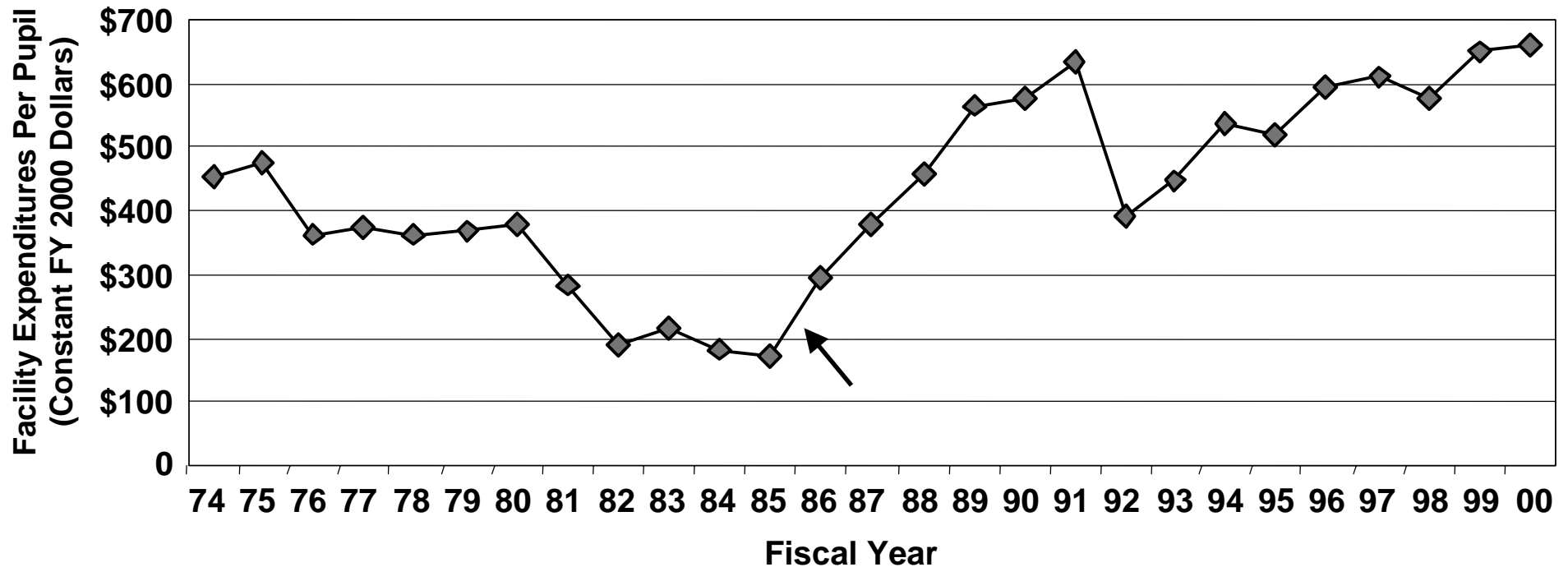
# Rising Number of Pupil in the Public Schools Since FY 1985

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# School Facility Costs Reached Higher Levels, Beginning in FY 1986

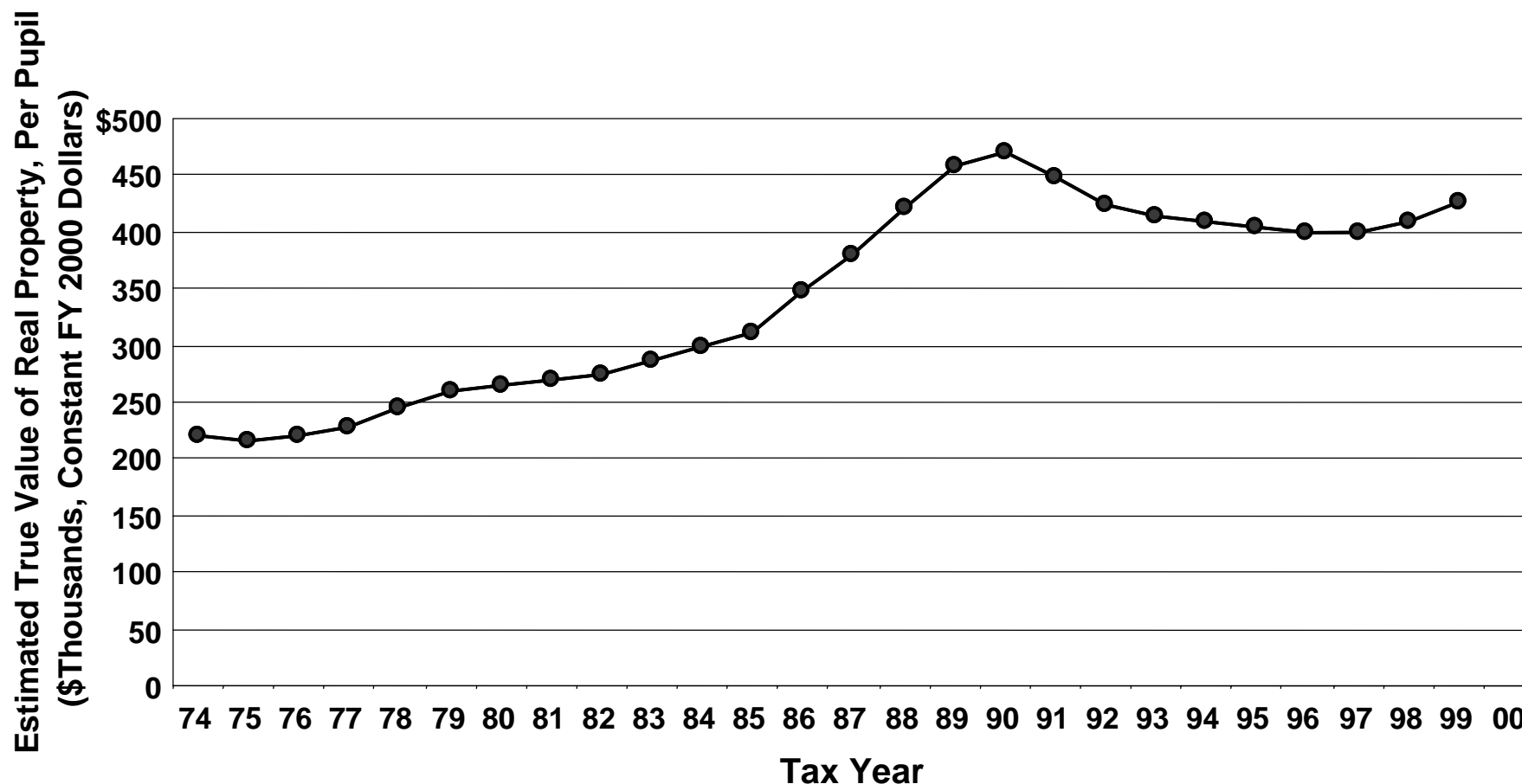
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# Growth in Local Real Property Tax Base Was Relatively Slow in 1990s

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# State Policies With Potential Locality Fiscal Impacts

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## ■ State reimbursements to local governments for car tax relief:

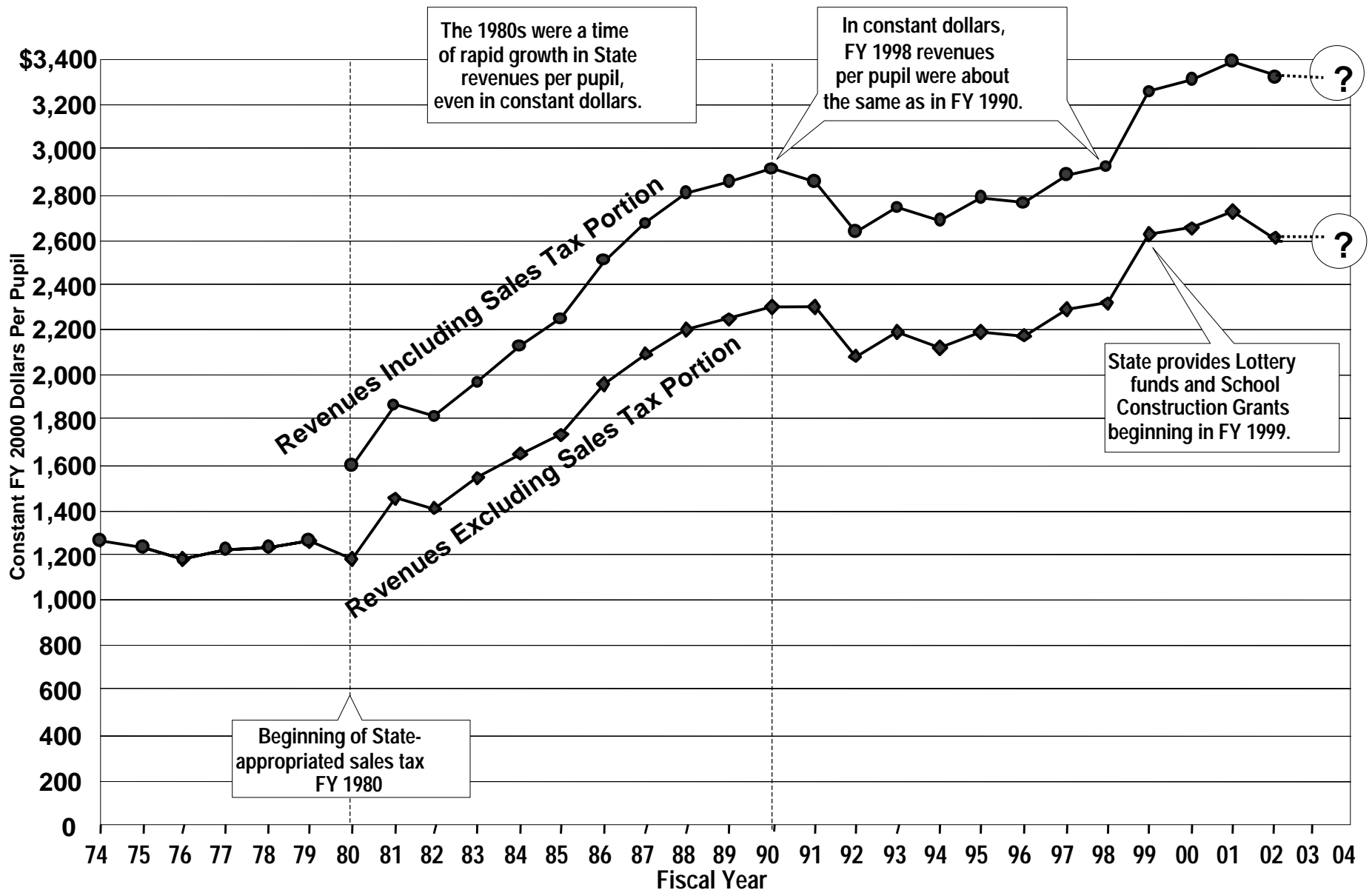
- paid based on local tax policies in place in 1997
- as a practical matter, and consistent with the relief intended for taxpayers by State policy, localities will generally not be raising this tax to gain higher revenues

## ■ Standards of Learning:

- State seeking, through a State curriculum and testing program, to challenge pupils and schools to improve student knowledge and performance, and to promote accountability
- Some costs already incurred; more costs anticipated in the future for school improvement plans

# School Division Revenues from State-Appropriated Funds, in Constant FY 2000 Dollars Per Pupil

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# Presentation Outline

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- ☐ Introduction and Summary of Findings
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- ☒ **SOQ Requirements and the Funding of SOQ Costs (Tier One)**
  - ☒ **Role of the Board of Education**
    - State's Estimation of SOQ Costs
    - Administration and Oversight of SOQ Funding
- ☐ Funding Options to Enhance State Support for Education (Tiers Two and Three)
- ☐ Framework for Determining State and Local Cost Responsibilities

# Constitutional Expectations for the SOQ

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- **SOQ framework attempts to promote State and local government accountability for ensuring adequate minimum standards and resources for public education**
- **Board of Education to prescribe standards (subject only to revision by the General Assembly)**
- **General Assembly is to determine manner in which funds are to be provided for the cost of maintaining an educational program meeting the SOQ, and to apportion that cost between State and localities**
- **“Each unit of local government shall provide its portion of such cost by local taxes or from other available funds.”**

# Board of Education Charged With Prescribing SOQ

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## ■ Report of the Commission on the Constitutional Revision (January, 1969):

- “clearly unworkable to enshrine a standard in the *Constitution*”
- “language of high quality intended to convey the idea of a progressively higher statewide standard, achievable under present conditions, but to be advanced as circumstances and resources permit”
- “Therefore, standards of quality are to be established by the State Board of Education, the governmental agency most familiar with the needs of the public school system, subject to revision only by the General Assembly, which because of its fiscal responsibility for meeting the standards, must have ultimate control of them.”

# Standards of Quality to Be Realistic

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## ■ Attorney General's opinion, 1973:

- “Although what items shall comprise the Standards is a matter for the exercise of sound judgment by the Board of Education, subject only to revision by the General Assembly, the Standards cannot be prescribed in a vacuum but must be realistic in relation to the Commonwealth's educational needs and practices.”

# **Board of Education Needs to Keep the SOQ Current With Prevailing Practice**

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- **Primary area in which Board of Education has set quantified standards that are part of SOQ funding framework is in the area of instructor-pupil ratios and maximum class sizes**
- **These basic standards have changed little since the 1980s, and are exceeded in most areas by current school division practices**
- **The current Board of Education, during the fall of 2001, has acknowledged that it has been relatively inactive with regard to re-examining SOQ requirements over the last decade or so**



# **Board of Education Needs to Make Annual Reports on Condition and Needs of Public Education**

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- **Article VIII, Section 5 of the Constitution of Virginia:**
  - **“It [the Board] shall make annual reports to the Governor and the General Assembly concerning the condition and needs of public education in the Commonwealth”**
- **The Board of Education began providing these annual reports in the 1970s. During the 1980s, the reports began to focus upon Board and State initiatives, rather than upon an analysis of condition and needs**
- **The Board of Education has not consistently produced reports during the 1990s with a focus on assessing the conditions and needs of education**

# Board of Education Needs to Develop Staffing Standards for Technology Positions

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- **Section 22.1-253.13:3 of the *Code of Virginia* requires the Board of Education to promulgate regulations with:**
  - “requirements and guidelines for the integration of educational technology into such instructional programs, administrative and instructional staffing levels and positions, including staff positions supporting educational technology” (amendments enacted at the 2000 General Assembly Session)
  - As of October 2001, the Board of Education had not promulgated such regulations, and DOE staff indicate that they have not developed internal draft staffing standards

# **Board of Education Indicates It Plans to Be More Active on SOQ Issues**

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## **■ The Board is considering a proposed amendment to its bylaws:**

- amendment would require the Board to “conduct a review of the Standards of Quality from time to time, but no less than once every two years”
- amendment could be a positive step

## **■ Board also has recently begun to plan the development of the next annual report on the status of public education. However:**

- the constitutional framework anticipates report which comes to grips with public education’s “needs” and “failures”
- DOE staff suggestions to the Board appear to foster a report that inventories, categorizes, and publicizes past and present actions of the Board

# Recommendations

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- ***Recommendation.*** The Board of Education should review the adequacy of current quantified standards pertaining to resource needs, and recommend advances in those standards to the General Assembly, as appropriate relative to current education conditions.
- ***Recommendation.*** The Board of Education should address the issue of resource needs for the public school system in its constitutionally and statutorily-required annual report on the “condition and needs” of public education.
- ***Recommendation.*** Pursuant to §22.1-253.13:3 of the *Code of Virginia*, the Board of Education should promulgate regulations regarding the integration of education technology into instructional programs and setting guidelines for staffing positions supporting educational technology.

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  - Role of the Board of Education
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# Historical View of SOQ Costs

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- ***Constitution of Virginia* empowers General Assembly to make final decisions about SOQ costs**
- **Adequacy of the costs set by the General Assembly has never been legally challenged:**
  - court case on education funding in early 1990s alleged that substantial disparities exist in school division resources, but Virginia Supreme Court held that “while the elimination of substantial disparity between school divisions may be a worthy goal, it simply is not required by the *Constitution*”
  - court noted that in that particular case, there was “no contention that the manner of funding prevents the schools from meeting the standards of quality”

# SOQ Should Be Realistic in Relation to Current, Prevailing Costs

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- **“The legislative determination of cost may not be based upon arbitrary estimates with no reasonable relationship to the actual expense”** (*Virginia’s Attorney General’s opinion, February 1983*)
- **[in] estimating the cost of implementing the Standards, the General Assembly must take into account the actual cost of education rather than developing cost estimates based on arbitrary figures bearing no relationship to the actual expense of education prevailing in the Commonwealth”** (*Virginia Attorney General’s opinion, February 1973*)
- **“... the following guidelines are implicit in the Constitution: (1) the Standards of Quality must be realistic in relation to current education practice. (2) The estimate of the cost of the Standards of Quality must be realistic in relation to current costs for education.”** (*From the first and second reports of the Task Force on Financing the Standards of Quality, December 1972 and July 1973*)

# Approaches to Estimating SOQ Costs

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- One way to promote the historical objectives in determining SOQ costs is to use a methodology with cost estimation principles that are known, reliable, and independent of factors that are unrelated to the expense of education, such as the short-term availability of funds
  
- Approaches to estimate SOQ costs have included:
  - the former Task Force / DOE approach
  - JLARC staff methodology (1986 and 1988 Sessions)
  - More recent approach, using JLARC staff methodology, but with some important deviations



# Former Task Force / DOE Methodology Assumptions

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- **Instructional positions:** Focused on division-wide Appropriation Act requirements
- **Teacher salary base:** Statewide average (total salary compensation divided by total number of teachers)
- **Support:** Comprehensive inclusion of positions; statewide average per-pupil cost
- **Teacher salary increases:** DOE projected salary costs forward using percentage increases needed to achieve or maintain teacher salary goals. Full year salary increases.
- **Inflation:** Used to move costs from base year to current year, and to project costs forward for each year of new biennium

# Statewide Average Cost Was Not Funded by the General Assembly

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- During the 1970s and first half of the 1980s, the Department of Education used the methodology to estimate the per-pupil costs of the SOQ
- In the Appropriation Acts, however, the General Assembly established a lesser SOQ cost than estimated by the department
- The difference was known as the “funding gap” for the SOQ. In 1975, the General Assembly funded 82.5 percent of the SOQ cost estimate; in 1982, it funded 78.0 percent

# JLARC Staff Methodology

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- In 1985, the General Assembly requested that JLARC staff examine the costs of the SOQ
- JLARC staff developed a cost methodology which had some similarities, but also differences, from the former Task Force / DOE approach

# JLARC Staff Methodology Assumptions

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- **Instructional positions:** Used all standards to determine instructional position needs above 57 per 1,000, where required
- **Teacher salary base:** Calculated using actual division-by-division average salaries, with an estimate of the typical division salary level using the linear weighted average (see later slides for further discussion)
- **Support costs:** Comprehensive inclusion of positions; linear weighted average cost
- **Teacher salary increases:** Projected forward based on percentages needed to achieve or maintain teacher salary goals. Full year salary increases
- **Inflation:** Used to move costs from base year to current year, and to project costs forward to each year of new biennium

# **JLARC Staff Methodology Reduced Size of SOQ Cost Estimates**

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- In 1985, using the Task Force / DOE methodology, the Department of Education estimated that \$395.9 million in additional State funds would be needed in the 1986-88 biennium to fully fund the SOQ
- Based on its methodology, JLARC staff estimated that an addition of only \$161.4 million was needed for full funding of the SOQ
- The JLARC staff cost approach was adopted by actions of the 1986 and 1988 General Assembly

# **Changes in Assumptions During 1990s Dampened Growth in SOQ Cost Estimates**

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## **■ Key changes included:**

- **No prospective inflation for support costs**
- **No teacher salary goal; instead, year-to-year decisions, usually based on State employee raises**
- **Salary raises paid by State for half of the year**
- **Costs for professional administrative staff dropped due to DOE error; change made permanent**

# No Prospective Inflation for Support Costs

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- Driven by inflation and other factors, school division support costs statewide almost always increase from year to year
- To help account for this, the JLARC staff methodology from the 1980s included the use of inflation factors to help anticipate cost increases
- The State's approach during the 1990s has assumed no prospective inflation for support costs
- Therefore, DOE's estimate of SOQ costs:
  - inflates a base year per-pupil cost, to estimate costs for the year prior to the start of the new biennium (for example, FY 2000 costs are inflated to obtain an FY 2002 cost)
  - the per-pupil cost from the fiscal year preceding the new biennium is then used to fund costs in both years of the new biennium (for example, a FY 2002 per-pupil cost is used to fund costs for FY 2003 and FY 2004)

# Teacher Salaries: Big Increases to Fund Salary Goals Largely Ended in FY 1991

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<u>Fiscal Year</u>	<u>Budget Bill Proposed Increase Over Prior Year</u>	<u>Appropriation Act Funded Increase Over Prior Year</u>	<u>Effective Date of Salary Increase</u>
1985	10.0%	10.0%	07/01/1984
1986	10.0%	10.0%	07/01/1985
1987	12.80 %	12.80%	07/01/1986
1988	12.80 %	12.80%	07/01/1987
1989	8.00 %	8.00%	07/01/1988
1990	8.00 %	8.00%	07/01/1989
1991	6.30 %	5.00%	07/01/1990
1991 Session addresses fiscal shortfall			
1992	0.00 %	0.00%	--
1993	0.00 %	0.00%	--
1994	0.00 %	<b>3.00%</b>	<b>12/01/1993</b>
1995	<b>2.25 %</b>	<b>3.25%</b>	<b>12/01/1994</b>
1996	<b>2.25 %</b>	<b>2.25%</b>	<b>12/01/1995</b>
1997	0.00 %	<b>1.75%</b>	<b>01/01/1996</b>
1998	<b>3.00 %</b>	<b>2.00%</b>	<b>01/01/1997</b>
1999	<b>2.25 %</b>	<b>2.25%</b>	<b>01/01/1998</b>
2000	<b>2.25 %</b>	<b>6.00%</b>	<b>01/04/1999</b>
2001	<b>0.00 %</b>	<b>2.40%</b>	<b>12/01/2000</b>
2002	<b>0.00 %</b>	<b>0.00%</b>	--



# **Teacher Salaries: State Does Not Have a Policy Connecting Salary Increases to Prevailing Practice**

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- **Teacher salary costs are a major component of SOQ costs**
- **Teacher salary increase levels are impacted by State budget decisions, but also by locality decisions about increases**
- **Based on school division expenditures, average teacher salaries have gone up in 26 of the last 27 years**
- **The State does not have a policy to provide salary increases that are likely necessary to keep pace with locality decisions**

## **Case Example: Salary Increases Not Currently Viewed as Part of State's SOQ Cost Responsibility**

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- *The executive branch's December 2000 proposed State budget provided a reduction in State retirement system contribution rates. Executive branch officials indicated that the locality cost savings from the rate reduction could and should be used by local governments to pay for teacher salary increases. The State was considered to have contributed to the end of increasing teacher salaries by setting the policy that led to the locality savings, and could use its own savings for other purposes. Under this perspective, the State was not seen as having a responsibility to share in the added costs to pay for the salary increases. Ultimately, when a budget impasse occurred, no State-funded salary increase was assumed in SOQ costs for FY 2002, as had been the executive branch's position.*

# **Teacher Salary Increase Assumptions Included in DOE's SOQ Cost Estimate**

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- **DOE's estimate of about \$377 million in increased SOQ costs for FY 2003 and FY 2004 assumes the following regarding teacher salaries:**
  - **a 2.4 percent increase per State budget in FY 2001**
  - **no increase in FY 2002**
  - **no increase in FY 2003**
  - **no increase in FY 2004**

# Salary Raises Provided for Half of the Fiscal Year

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- Beginning in FY 1994, salary increases for school division personnel have been paid by the State starting in December or January of the fiscal year being funded
- School divisions typically provide salary increases at the start of the contract year, typically in July
- Localities must essentially provide: (1) half of the State's share of the increase (since State funds are provided for half of the year), and (2) the full local share of the salary increase
- Example: If State provides a 2.4 percent teacher salary increase effective in January of the fiscal year
  - typical composite index locality needs to pay for a 1.74 percent increase in order to realize a 2.4 percent increase
  - State share of cost is a 0.66 percent increase

# **Costs for Certain Administrative Staff Were Not in FY 1993 SOQ Costs Due to DOE Error**

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- **“Each local school board shall provide those support services which are necessary for the efficient and cost-effective operation and maintenance of its public schools including, but not limited to, administration...”**
- **Historically, the various types of support positions provided by school divisions, including administrative personnel, have been included in SOQ costs**
- **In FY 1993, due to an oversight by DOE staff, costs for administrative personnel other than local school board members, superintendents, and assistant superintendents were inadvertently missed in SOQ cost estimates**

# **Costs for Certain Administrative Staff Permanently Dropped from SOQ Costs**

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- DOE staff indicate that when it noticed its error the next year, it notified appropriate officials
- However, DOE has not been directed to restore the dropped costs
- As a result, the State does not currently contribute toward the prevailing costs of positions providing:
  - clerical services
  - board and executive administration services
  - information services, personnel services, planning services, fiscal services, purchasing services, reprographics, and data processing

# **Locally-Generated Revenues Subtracted from Costs Before SOQ Costs Finalized**

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- **The current approach to SOQ costs subtracts locally generated revenues from the costs prior to the deduction of the sales tax and the calculation of Basic Aid per-pupil amounts**
- **Locally-generated revenues are local funds obtained through activities such as the collection of fees or rent, sales of supplies, and interest on interest-bearing accounts**
- **This practice means that a portion of SOQ costs are not included in the SOQ cost calculations**

# **JLARC Staff Proposed Adjustments to Keep SOQ Costs Current and Prevailing**

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- **No deduction of locally-generated revenues before setting SOQ costs (and no deduction before determining State and local shares)**
- **Restoration of dropped administrative personnel cost categories**
- **Full cost of competing adjustment**
- **Inflation factors for FY 2003 and FY 2004 for health insurance premiums and support costs**
- **Instructional salary increases based on recent, prevailing practices (average salary increases achieved in recent years)**



# Comparison of State Aid Approach to Teacher Salaries and Approach Fully Recognizing Prevailing Salary Levels

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(The base year FY 2000 linear weighted average salary was \$34,546).

<u>Fiscal Year</u>	<u>State's Assumption</u>	<u>State Budget</u>	<u>Assumption to Fund Full Cost of Likely Prevailing Salary</u>	<u>Full SOQ Cost Based on Prevailing Cost Approach</u>
2001	2.4 percent increase per State Budget	<b>\$35,375</b>	Average salary levels of school divisions estimated to increase 3.66 percent over FY 2000	<b>\$35,810</b>
2002	No salary increase was provided	<b>\$35,375</b>	Average rate of instructional salary increase, last five years of known data was 2.79 percent	<b>\$36,809</b>
2003	The SOQ salary cost estimate will increase if the State can afford and decides upon an increase	<b>\$35,375 + ?</b>	Same percentage increase as FY 2002 (2.79 percent)	<b>\$37,836</b>
2004	Same as 2003	<b>\$35,375 + ?</b>		<b>\$38,892</b>

# Biennium Costs of Proposed Adjustments in Calculating SOQ Costs

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## ■ Increased State costs in FY 2003 plus FY 2004 over FY 2002 levels (\$389 million is estimated increase due to routine updates):

- no deduction of locally-generated revenues = + \$51 million
- restore dropped administrative costs = + \$138 million
- full cost of competing for support = + \$6 million
- health insurance premium increases = + \$54 million
- non-personnel support inflation = + \$36 million
- prevailing support salaries kept current = + \$79 million
- instructional salaries kept current = + \$307 million

## ■ Total two-year increase, routine increase plus adjustments: \$ 1.060 billion

# **Tier One Costs: Based on Proposed SOQ Cost Adjustments**

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- **The proposed adjustments shown on the previous slide are included in the JLARC study under Option Tier One (the first of three option tiers)**
- **The Tier One cost is intended to provide a cost which is consistent with school division practices where quantified SOQ are not available, and to keep that cost current for the years to be funded**
- **It is presented as an estimate of SOQ costs which may be more realistic than is obtained under the current State approach:**
  - **makes some adjustments in cost estimation practices which should yield more realistic cost results over the long term**
  - **seeks to estimate at least the costs which appear likely in the years to be funded, taking prevailing division practices into account**

# Recommendations

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60

- ***Recommendation.*** To fully calculate SOQ costs and improve the accuracy of Basic Aid cost calculations, the State should discontinue the practice of deducting locally-generated revenues from the cost figures that are used in determining total SOQ costs and State and local share responsibility.
- ***Recommendation.*** The General Assembly may wish to provide sufficient funding in FY 2003 and FY 2004 to provide a State share of 55 percent of the costs of funding the SOQ as estimated using adjustments described in the JLARC staff report, and therefore provide for a State share based upon the anticipated prevailing costs in those fiscal years.
- ***Recommendation.*** The General Assembly may wish to direct that the Department of Education estimate SOQ costs based on principles consistent with producing a current, prevailing cost. This cost estimate should be distinguished, as needed, from adjustments departing from prevailing costs that may be made year-to-year to produce the State budget.

# Presentation Outline

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61

- ☐ Introduction and Summary of Findings
- ☐ Background
- ☒ **SOQ Requirements and the Funding of SOQ Costs (Tier One)**
  - Role of the Board of Education
  - State's Estimation of SOQ Costs
- ☒ **Administration and Oversight of SOQ Funding**
- ☐ Funding Options to Enhance State Support for Education (Tiers Two and Three)
- ☐ Framework for Determining State and Local Cost Responsibilities

# **Problems With the Special Education Child Count Used in SOQ Funding**

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62

## **■ Data may not be accurate for all school divisions**

- The data for some localities shows unusually high proportions of self-contained pupils, which can lead to over-estimation of costs

## **■ Data may not be reliable in every year**

- Virginia Beach data for the 2000-2001 school year originally indicated an extremely low proportion of self-contained pupils, which can lead to under-estimation of costs.

# State Needs to Ensure That All Localities Are Consistently Funding the SOQ

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63

- ***Constitution of Virginia* requires that “each unit of local government shall provide its portion of [SOQ costs] by local taxes or from other available funds”**
- **Appropriation Act language for 27 years has required that calculations be performed “in order to determine if a school division has met its required local expenditure for the Standards of Quality”**
- **The language has not specified who is to perform the calculation. DOE staff check ask for local budgeted amounts in the fall, but do not review actual expenditures**
- **JLARC staff review of FY 2000 expenditures provides at least a preliminary indication that three localities may not have met their required local share in that year**

# Other Issues Regarding the Administration and Oversight of Funding

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64

- State per-pupil basic aid funding is reduced in the event of an under-forecast of ADM, which means that a component of SOQ cost is not funded in full
- Some issues regarding annual school report data need to be addressed
- Reliable data needed on locality expenditures for education outside of local school board budgets
- SOQ cost model could be better documented, updated and executed annually, and made more readily accessible outside of DOE



# Recommendations

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65

- ***Recommendation.*** The Department of Education needs to review and make corrections as appropriate to the special education child count data that are currently being used in the SOQ funding model. In the future, DOE staff need to develop checking procedures to better ensure the reliability of these data.
  
- ***Recommendation.*** If substantial discrepancies remain for any school divisions after correcting special education pupil count data, the Department of Education should conduct a review of special education staffing in divisions with fewer total FTE instructional positions, and fewer FTE teachers, than are calculated by the SOQ funding model. DOE may need to assess whether there are any problems with the sufficiency of local staffing levels relative to SOQ requirements, or whether there are any assumptions of the model that appear to be producing an over-estimate.

# Recommendations

## (continued)

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66

- ***Recommendation.*** The General Assembly may wish to consider expanding upon Appropriation Act language to explicitly provide that the Department of Education is to perform calculations annually to determine if required local expenditures for the SOQ have been met.
- ***Recommendation.*** The Governor and the General Assembly may wish to end the requirement for a proportional reduction in Basic Operation Costs for the SOQ if the statewide number of pupils exceeds estimated ADM.

# Recommendations

## (continued)

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67

- ***Recommendation.*** The Department of Education should make additional improvements to its instructions to the Annual School Report, to better ensure the consistency of data.
- ***Recommendation.*** The General Assembly may wish to request that the State Board of Education and the Auditor of Public Accounts work together to examine the issue of expenditures that are made by local governments that are funded from parts of the locality budget other than education, yet have the same purpose as expenditures commonly reported on the Annual School Report.
- ***Recommendation.*** The Department of Education should improve the documentation and accessibility of the Oracle-based SOQ cost model.
- ***Recommendation.*** The General Assembly may wish to require that the Department of Education fully update and execute the SOQ cost model on an annual basis.

# Presentation Outline

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68

- ☐ Introduction and Summary of Findings
- ☐ Background
- ☐ SOQ Requirements and the Funding of SOQ Costs (Tier One)
- ☒ Funding Options to Enhance State Support for Education
  - ✓ Tier Two: Instructional Positions and Pre-School
    - Tier Three: Debt Service and Enhanced Teacher Salaries
- ☐ Framework for Determining State and Local Cost Responsibilities

# Tier Two Funding Options

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69

- **Second of three funding tiers addresses operating costs which are currently considered non-SOQ, but which may merit enhanced State support**
- **The tier focuses on the following:**
  - elementary resource teachers
  - secondary class size of 25 to one with a planning period
  - other prevailing instructional staffing practices
  - added costs for expanded State payments for pre-school programs

# **State SOQ Costs Do Not Include Costs for Elementary Resource Teachers**

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70

- Regarding the instructional program in elementary schools, State Standards of Accreditation state that “each school shall provide instruction in art, music, and physical education and health”
- SOQ cost estimates have not explicitly included elementary resource teachers as a component of the cost
- The assumption used in estimating SOQ costs has been that under the standards, divisions may have the regular classroom teacher provide this resource instruction

# Prevailing Division Practices Include Art, Music, and Physical Education Teachers

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71

- Music -- 128 of 130 school divisions responding to the JLARC survey have resource teachers
- Physical education -- 128 of 130 school divisions responding
- Art -- 116 of 130 school divisions responding
- A majority of school divisions have reading resource teachers, but most of these are federally funded
- Foreign language, technology, and other resource teachers are only employed by a minority of divisions at the elementary level

# **State May Need to Consider Present-Day Intent Regarding Elementary Resource Teachers**

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72

- **As indicated, most divisions employ elementary music, physical education, and art resource teachers**
- **State now has Standards of Learning, applicable to the elementary grades, in the areas of music, visual arts, dance arts, theatre arts, physical education, and health education (adopted by the Board of Education, May 2000)**
- **There is reason to question whether it is practical for regular classroom teachers to routinely have full responsibility for providing high-quality instruction in these resource subjects as well as the regular curriculum**
- **Most school divisions appear to have made the judgment that it is not realistic in music, physical education, and art**



# **Current SOQ Cost Calculations Do Not Provide for a Secondary Planning Period**

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73

- **The SOQ require that instructional staff be assigned in a manner that produces school-wide ratios of students to FTE teaching positions of 25 to one in middle and high schools**
- **SOQ cost calculations have applied the standard as providing one basic FTE position for every 25 pupils**
- **The Standards of Accreditation require that one class period per day shall be available to teachers for instructional planning**
- **To fund the costs of a 25 to one pupil-teacher ratio and provide for the costs of a planning period within the teacher's day, the State would need to fund a pupil-teacher ratio of about 21 to one, rather than 25**

# Prevailing School Division Practices: Instructional Staff Other Than Teachers

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74

Type of Instructional Position	Number of State and Locally Funded Positions	Number of Positions Based on SOQ Standards	Percentage Actual Positions Exceed SOQ Positions
Principals	1,880	1,692	+ 11.1 %
Assistant Principals	1,912	795	+ 140.5 %
Guidance Counselors	3,311	2,656	+ 24.7 %
Librarians	2,063	1,875	+ 10.1 %

# Prevailing School Division Practices: Maximum Class Sizes

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75

- A table in Chapter III of the JLARC report shows data on largest class sizes reported by school divisions for kindergarten to grade 7 in 1999-2000
- Seventy-five percent of school divisions reported having no class sizes larger than the following:
  - kindergarten                      23 (State maximum class standard is 30 with an aide, else 25)
  - grade one                              23 (State standard is 30)
  - grade two                              24 (State standard is 30)
  - grade three                            25 (State standard is 30)
  - grade four                            26 (State standard is 35)
  - grade five                            27 (State standard is 35)
  - grade six                            29 (State standard is 35)
  - grade seven                          29 (State funding calculations allow up to 35)

# Prevailing School Division Practices: Division-wide Basic Elementary Pupil-Teacher Ratios

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76

■ Kindergarten:	20.0 to one
■ Grade one:	19.1 to one
■ Grade two:	19.3 to one
■ Grade three:	20.0 to one
■ Grade four:	21.5 to one
■ Grade five:	21.7 to one
■ Grade six:	23.0 to one
■ Grade seven:	23.1 to one

# Recommendations

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77

- ***Recommendation.*** The General Assembly may wish to consider funding a State share of the cost of the prevailing levels of elementary resource teachers in the school divisions, and/or a 21-to-one pupil-teacher ratio at the secondary school level (to fund an average class size of 25 to one, with a teacher planning period).
- ***Recommendation.*** The Board of Education should examine the Standard of Accreditation provisions for assistant principals, and the current sufficiency of the requirement for just half-time principals at elementary schools with enrollments below 300 pupils.

# State's At-Risk Pre-School Initiative

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78

- In FY 1996, the State appropriated about \$9.2 million for a pre-school initiative to provide a program to 30 percent of the children not currently served by Head Start or Title 1 funds
- Funds are appropriated as direct aid to localities under the Department of Education's budget
- In FY 1997, State funds grew to about \$14.9 million, in support of the costs of serving up to 60 percent of unserved children

# **Costs to Keep Pre-School Initiative Funding Current**

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79

- **The cost per-pupil that was funded in FY 1996 was believed to be appropriate for providing quality programs serving at-risk four-year-olds**
- **That cost was \$5,400 per pupil**
- **The cost per pupil, however, has not been increased since FY 1996**
- **To provide a grant with similar purchasing power as in FY 1996, JLARC staff estimate that the per-pupil cost would be \$6,450 in FY 2003 and \$6,620 in FY 2004**

# **Costs to Fund Up to 100% Participation in the Pre-School Initiative**

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80

- **An original goal of the State program was to move to funding for up to 100 percent of children**
- **However, for cost reasons, the percentage has remained at 60 percent since FY 1997**
- **The increased cost to both update the per-pupil amounts and provide the program for up to 100 percent of unserved children would be an estimated \$23.3 million in FY 2003 and \$24.5 million in FY 2004 (the increase above the State's planned allocation level in FY 2002 of \$23.5 million)**



# **Costs for State Funding of Pre-Existing Local Pre-School Programs**

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81

- **The initial focus of the pre-school initiative has been to make the program available to children previously unserved**
- **More than 50 school divisions cannot fully access the program because they had pre-existing programs for which they chose to use their federal Title 1 funds**
- **These divisions make the equity argument that they are not now able to use their Title 1 funds for other purposes, as divisions who are just starting pre-school programs and getting initiative funds can**

# Recommendations

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82

- ***Recommendation.*** The General Assembly may wish to consider funding the Virginia Pre-School Initiative Program by using an updated per-pupil grant amount.
- ***Recommendation.*** The General Assembly may wish to consider expanding the Virginia Pre-School Initiative Program to provide a State share of the grant amount for up to 100 percent of the “unserved” at-risk four-year-olds in localities eligible for the program.
- ***Recommendation.*** The General Assembly may wish to consider funding a State share of pre-school programs in the school divisions that established their programs prior to the start of the State’s Pre-School Initiative Program, enabling those divisions to use Federal Title I and other funds for other programs, as currently participating school divisions can.

# Added State Costs for Tier Two Options, 2002 to 2004 Biennium

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83

## ■ Added State cost beyond Tier One, in each fiscal year:

	<u>Millions FY 2003</u>	<u>Millions FY 2004</u>
● Prevailing elementary resource teachers	\$110	\$114
● Secondary class size of 25 to one with planning period	\$80	\$83
● Enhanced instructional staffing	\$173 to \$283	\$179 to \$293
● Added costs for pre-school program	\$4 to \$41	\$5 to \$42

# Presentation Outline

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84

- ☐ Introduction and Summary of Findings
- ☐ Background
- ☐ SOQ Requirements and the Funding of SOQ Costs (Tier One)
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  - Tier Two: Instructional Positions and Pre-School
  - ✓ Tier Three: Debt Service and Enhanced Teacher Salaries
- ☐ Framework for Determining State and Local Cost Responsibilities

# Overview of Tier Three

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85

- Tier Three addresses options for enhanced State support for capital purposes, and for teacher salary levels
- For capital costs, an approach using prevailing debt service costs per-pupil was considered, as well as an approach using building life-cycle costs
- For teacher salaries, several options were considered to go beyond Tier One costs, but all have some limitations
- The report recommends that the Governor and the General Assembly may wish to form a Task Force to consider the future direction that the State and localities may wish to take regarding teacher salaries and setting teacher salary goals

# Debt Service Costs

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86

- In addition to operating expenditures, most divisions make expenditures to finance new school buildings or renovate and restore existing buildings
- These costs are reported as facility costs, in the years in which the payments are made to the contractors performing the work
- To extent the payments are made using loan funds, the loan payments that are made each year as the locality repays the loans are reported as debt service expenditures
- In FY 2000, school divisions expended about \$532 million on debt service (payments for principal and interest that service the debt of the school divisions)

# **Extent of State Participation in Costs for Local School Buildings Is a Policy Choice**

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87

- **Over the years, the State's primary role in providing support has been in lowering the financing costs incurred by local governments**
- **This has been done through low-interest loans**
- **The State began funding a school construction program in 1998, and also requires that at least half of the lottery fund proceeds provided to localities since 1998 be used for "non-recurring expenditures"**
- **In FY 2000, this resulted in approximately \$116 million in State funding for facility costs, or about 22 percent of the debt service costs incurred by localities in that year**

# **One Cost Approach: Useful Life of the Building**

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88

- **During 2001, the Virginia Consortium for Adequate Resources for Education (Virginia CAREs), an education advocacy group, developed recommendations for supporting education, including a building life cycle approach for facility funding**
- **JLARC staff considered the general approach and developed some costs estimates which assumed a 25-year, 37.5-year, and 50-year life cycle for facility costs**



# Another Cost Approach

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89

- JLARC staff also considered the use of prevailing per-pupil debt service costs
- Based on the prevailing cost for school division expenditures in FY 2000, the cost resulting from the use of the current prevailing practice of school divisions is close to the cost resulting from the assumption of a 37.5 year life cycle
- The prevailing per-pupil debt service cost approach has at least two potential benefits over the life-cycle approach:
  - it is responsive to the costs incurred by school divisions
  - it does not depend on a subjective decision about what life-cycle length “should” be assumed

# Estimated Cost Impact to State If a Prevailing Per-Pupil Debt Service Cost Had Been Funded in FY 2000

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90

<b>Percent of Total Cost to Be Paid by the State</b>	<b>Total Cost to State, FY 2000</b>	<b>Facility Funding Provided by the State General Fund, FY 2000</b>	<b>Net Additional Cost to the State, FY 2000</b>
<b>50%</b>	<b>\$221,377,673</b>	<b>\$107,000,000</b>	<b>\$114,377,673</b>
<b>45%</b>	<b>\$199,239,906</b>	<b>107,000,000</b>	<b>\$92,239,906</b>
<b>33%</b>	<b>\$147,584,968</b>	<b>107,000,000</b>	<b>\$40,584,968</b>

# Funding Teacher Salaries

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91

- The base (or floor) for teacher salaries used by the State in calculating SOQ costs is a “linear weighted average” of school division actual costs
- Use of the measure stemmed from the JLARC staff SOQ cost methodology in the mid-1980s
- The linear weighted average is a reflection of the salary level that is prevailing, or typical, among school divisions in the State
- The linear weighted average is a lesser figure than the average salary across all teachers, and is sometimes criticized for this reason

# **State Uses Actual School Division Costs to Define Prevailing Costs**

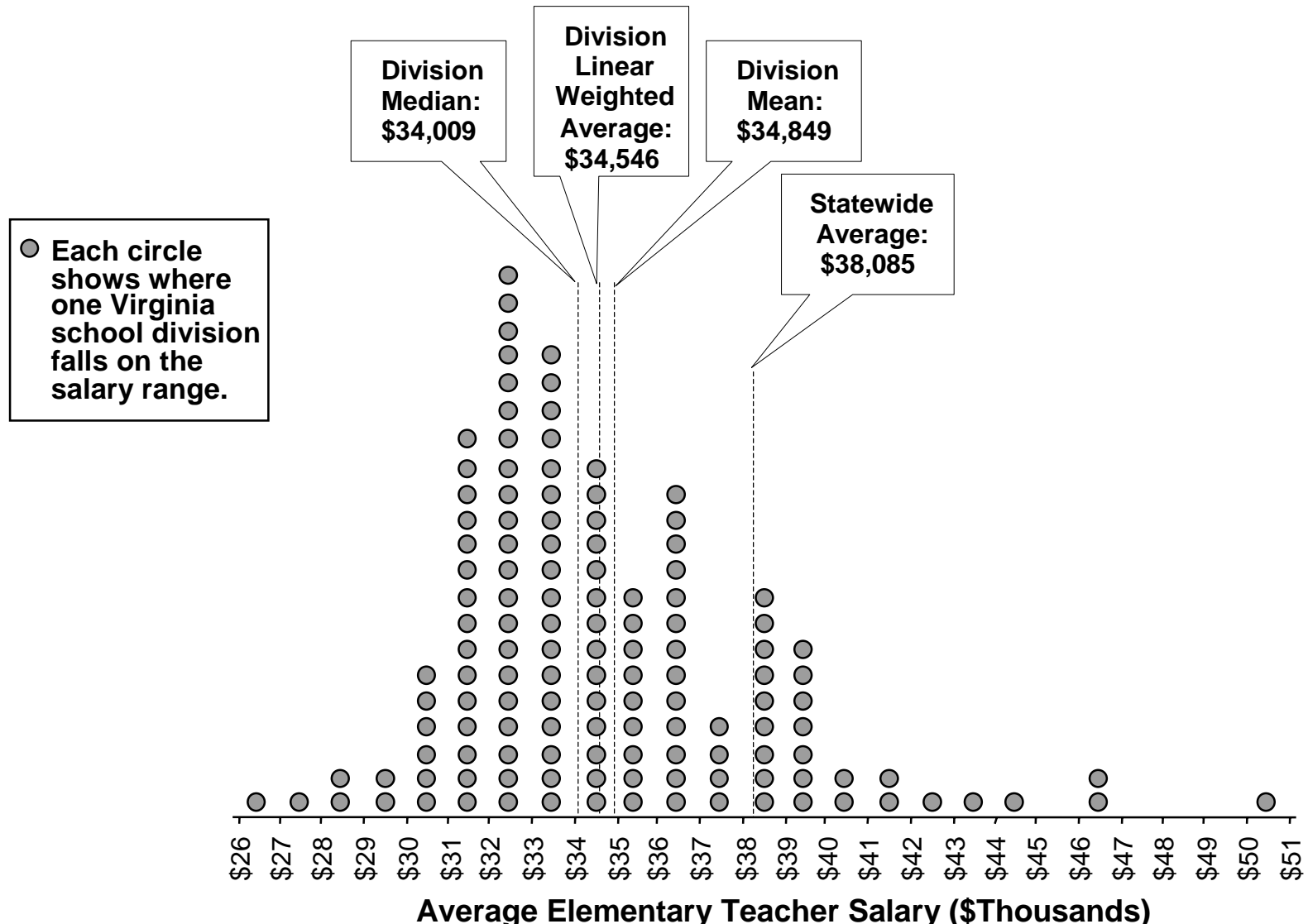
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92

- **School divisions are required to meet the requirements of the SOQ**
- **School divisions are the units which receive funding from the State**
- **SOQ costs are to be met in all school divisions**
- **A 1973 Attorney General opinion indicated that a minimum teacher salary scale in effect at that time, which was exceeded by every school division, did not reflect current educational practices, and indicated that the General Assembly should take into account the practices of school divisions**

# Statewide Average Salary Exceeds Salary of Most Divisions

93



# COMBINED TEACHER SALARIES

73 Divisions Pay Below the Linear Weighted Average (\$35,298)		37 Divisions Pay Above the LWA But Below the State Average (\$38,744)	13 Divisions Pay Above the State Average But Below the National Average (\$41,820)	8 Divisions Pay Above the National Average (\$41,820)
ACCOMACK	KING GEORGE	ALBEMARLE	COVINGTON	ALEXANDRIA
ALLEGHANY H.	KING WILLIAM	AUGUSTA	FAUQUIER	ARLINGTON
AMELIA	LANCASTER	BATH	FREDERICKSBURG	COLONIAL HEIGHTS
AMHERST	LEE	BOTETOURT	HENRICO	FAIRFAX
APPOMATTOX	LOUISA	BRISTOL	MANASSAS	FALLS CHURCH
BEDFORD	LUNENBURG	BUENA VISTA	ORANGE	LOUDOUN
BLAND	LYNCHBURG	CHARLOTTESVILLE	RADFORD	PRINCE WILLIAM
BRUNSWICK	MADISON	CHESAPEAKE	RICHMOND CITY	SALEM
BUCHANAN	MARTINSVILLE	CHESTERFIELD	ROANOKE	
BUCKINGHAM	MATHEWS	CLARKE	ROANOKE CITY	
CAMPBELL	MECKLENBURG	DANVILLE	VIRGINIA BEACH	
CAROLINE	MIDDLESEX	ESSEX	WILLIAMSBURGJCC	
CARROLL	MONTGOMERY	FRANKLIN CITY	WINCHESTER	
CHARLES CITY CO	NELSON	FREDERICK		
CHARLOTTE	NEW KENT	GOOCHLAND		
COLONIAL BEACH	NEWPORT NEWS	HANOVER		
CRAIG	NORTHAMPTON	HOPEWELL		
CULPEPER	NOTTOWAY	ISLE OF WIGHT		
CUMBERLAND	PAGE	MANASSAS PARK		
DICKENSON	PATRICK	NORFOLK		
DINWIDDIE	PETERSBURG	NORTHUMBERLAND		
FLOYD	PITTSYLVANIA	NORTON		
FLUVANNA	POWHATAN	POQUOSON		
FRANKLIN CO	PRINCE EDWARD	PORTSMOUTH		
GALAX	RAPPAHANNOCK	PRINCE GEORGE		
GILES	RICHMOND CO	PULASKI		
GLOUCESTER	ROCKBRIDGE	SCOTT		
GRAYSON	ROCKINGHAM	SMYTH		
GREENE	RUSSELL	SPOTSYLVANIA		
GREENSVILLE	SHENANDOAH	STAFFORD		
HALIFAX	SOUTHAMPTON	SURRY		
HAMPTON	STAUNTON	SUSSEX		
HARRISONBURG	SUFFOLK	TAZEWELL		
HENRY	WARREN	WAYNESBORO		
HIGHLAND	WASHINGTON	WEST POINT		
KING AND QUEEN	WESTMORELAND	WISE		
	WYTHE	YORK		

# Key Points Regarding the Linear Weighted Average

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95

## ■ The linear weighted average:

- is not a proxy measure for the statewide average
- is an estimate of the central tendency of the school division data -- typically it is above the median and below the mean
- takes into account the actual costs of school divisions
- produces a single estimate with a reasonable relationship to actual division costs
- changes over time in response to the costs incurred by school divisions, particularly moderate-cost divisions

# Use of the Linear Weighted Average or the Statewide Average in SOQ Funding

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96

- The linear weighted average is used in SOQ cost calculations to set a salary floor upon which all school divisions are funded, even if they actually pay a lesser salary:
  - recognizes State's responsibility for a prevailing cost
  - funding less than the prevailing cost, particularly for divisions with low local ability to pay, would raise some funding equity / disparity concerns
- Use of a higher salary figure to set the floor -- such as the statewide average -- would increase State costs, but would also increase required local expenditures
- With a majority of school divisions paying less than the linear weighted average, the use of the linear weighted average measure for its intended purpose -- to set a minimum unit cost floor for all -- does not appear to be too restrictive



# **Concerns About the State's Cost-of-Competing Adjustment**

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97

- **The State currently adjusts the linear weighted average salary to take into account cost of competing differences in Northern Virginia, as it does for State employees**
- **Concerns are sometimes raised that this differential enables those localities to pay higher salaries, or is a bonus to some wealthy localities**

# Arguments in Support of the Cost-of-Competing Adjustment

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98

- **Concerns about this adjustment do not account for the following factors:**
  - the reality of the regional labor market in that area
  - the fact that higher salaries already were, and had to be, paid in that region of the State, prior to the adjustment
  - the cost of competing was adopted at the same time as other changes which negatively impacted most Northern Virginia localities, particularly the equalizing of almost all accounts
  - localities receive cost of competing funds based on ability to pay, so high composite index localities still pay for most of the cost
- **However, this does not mean that other localities do not also experience competitive difficulties**

# School Division Competitive Difficulties

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99

- Recently, there have been concerns about a teacher shortage
- While the most recently available data do not indicate that positions are going unfilled to a great extent, there are some indicators that divisions are experiencing difficulties:
  - ten school divisions report that 40 percent or more of their special education teachers in 1999-2000 were provisionally-licensed
  - five school divisions reported that over 24 percent of their total teaching force was provisionally-licensed
  - over one-third of divisions reported an average of three or fewer applicants per teaching position for the 2000-2001 school year that either held or were eligible for a teaching license
  - there is some evidence that factors associated with difficulties in attracting or retaining staff may include lower relative salary levels, the proportion of minority students, proximity to Northern Virginia, and high local costs of living / housing

# Teacher Salary Options

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100

- Recognize salary up to statewide average where offered
- Adjust statewide average salary based on survey of comparable positions
- Strive to achieve parity with the national average salary
- Governor and General Assembly may wish to form a task force on teacher salaries, to address State and local goals for teacher salaries

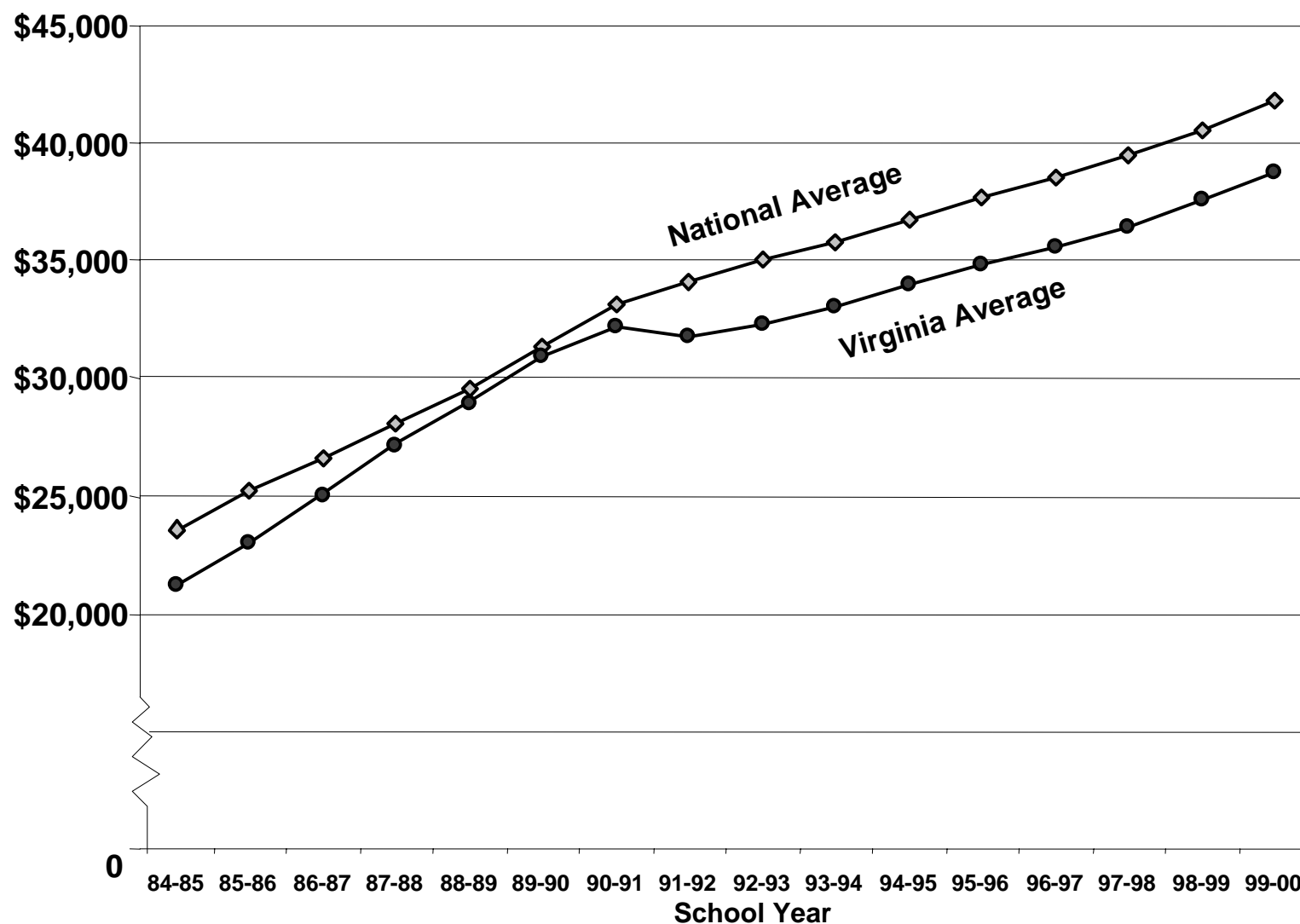
# Virginia Average Teacher Salary Standing Compared to Other Southeastern Jurisdictions

101

<u>FY 1990 Salary</u>	<u>FY 2000 Salary</u>	<u>Percent Change (FY 1990 to 2000)</u>
\$38,402 Washington	\$48,304 Washington D.C.	+ 53.3 % West Virginia
\$36,601 Maryland	\$43,720 Maryland	+ 47.0 % Georgia
\$31,319 <i>United States</i>	\$41,820 <i>United States</i>	+ 41.3 % North Carolina
<u>\$30,938 Virginia</u>	\$41,122 Georgia	+ 37.9 % Kentucky
\$28,803 Florida	\$39,404 North Carolina	+ 34.3 % Tennessee
\$27,966 Georgia	<u>\$38,744 Virginia</u>	+ 33.5 % <i>United States</i>
\$27,883 North Carolina	\$36,722 Florida	+ 32.6 % South Carolina
\$27,217 South Carolina	\$36,328 Tennessee	+ 27.5 % Florida
\$27,052 Tennessee	\$36,255 Kentucky	+ 25.8 % Washington D.C.
\$26,292 Kentucky	\$36,081 South Carolina	+ <u>25.2 % Virginia</u>
\$22,842 West Virginia	\$35,011 West Virginia	+ 19.5 % Maryland

# Virginia's Average Per-Teacher Salary Expenditures Compared to National Average Teacher Salary

102



# Estimated Cost to Achieve the National Average Teacher Salary by FY 2006

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103

- The estimated State and local cost to move the statewide average salary to the national average by FY 2006 would entail an expenditure of about \$789 million in FY 2006 beyond FY 2002 levels
- Based on past salary increases, school division salaries may increase by about \$430 million by FY 2006 anyway, unless fiscal conditions remain difficult, leaving an added cost burden of about \$359.5 million per year
- However, the State does not now pay the statewide average salary, so the cost for the State may need to figure in the cost between the linear weighted average salary and the statewide average salary

# Tier Three Recommendations

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104

- ***Recommendation.*** The General Assembly may wish to continue the approach of minimizing the extent to which Literary Funds are used for non-construction purposes. In addition, the General Assembly may wish to consider ending the practice of transferring funds from the Literary Fund to the General Fund for the School Construction Grants Program
- ***Recommendation.*** The Governor and the General Assembly may wish to create a Task Force to examine the issue of an appropriate teacher salary goal for the Commonwealth of Virginia, to assist in determining whether and how much of a salary increase should be provided in the future, beyond those sufficient to fund anticipated prevailing school division salaries
- ***Recommendation.*** The General Assembly may wish to consider establishing, in future Appropriation Acts, the teacher salary goal that it wishes for the State to pursue, beyond keeping salaries current with the prevailing salary levels that can be anticipated in the years to be funded



# Tier Three Costs

105

## ■ Estimated additional State costs\* during the 2002-2004 biennium (two-year costs)

### Millions

- Up to 50 percent State share of prevailing debt service costs up to \$291
- Range in added costs for teacher salaries to go beyond tier one (upper bound is movement to national average salary by FY 2006) \$87 to \$394

\* State costs shown for the biennium are above and beyond the Tier One cost. National average salary cost estimate provides State funding increases to move from the linear weighted average to the national average salary as the basis of State costs.

# Presentation Outline

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106

- ☐ Introduction and Summary of Findings
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# **State Framework for State and Local Shares of Costs Appears Appropriate**

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107

- **Constitution provides General Assembly with responsibility for determining State and local shares of costs for the SOQ**
- **State's focus has been on SOQ costs, and paying a higher share for those costs. This appears appropriate**
- **Localities are expected to provide required local expenditures**
- **Primary issues appear to concern sufficiency of the SOQ, and adequacy of State funding**

# **State Policy Choice Has Been to Pay 55 Percent of Shared SOQ Costs**

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108

- **There is a misperception that the State has a commitment to fund 55 percent of actual costs, interpreted as school division expenditures**
- **The State's policy has been to pay 55 percent of shared SOQ costs (after the deduction of sales tax)**
- **State policy to pay 55 percent of shared SOQ costs resulted from changes to pay more State accounts using a local ability to pay measure**
- **Appropriation Acts for FY 1989 to FY 1993 indicated the State's intent to fund 55 percent of shared SOQ costs, after deduction of the sales tax**
- **The current composite index reflects this 55 percent share**

# Composite Index Is State's Measure of Local Ability to Pay

109

## ADM Component

$$.5 \left[ \frac{\frac{\text{Local True Values}}{\text{Local ADM}}}{\frac{\text{Total Statewide True Values}}{\text{State ADM}}} \right] + .4 \left[ \frac{\frac{\text{AGI}}{\text{Local ADM}}}{\frac{\text{Total Statewide AGI}}{\text{Statewide ADM}}} \right] + .1 \left[ \frac{\frac{\text{Local Taxable Retail Sales}}{\text{Local ADM}}}{\frac{\text{Total Statewide Taxable Retail Sales}}{\text{Statewide ADM}}} \right]$$

## Population Component

$$.5 \left[ \frac{\frac{\text{Local True Values}}{\text{Local Population}}}{\frac{\text{Total Statewide True Values}}{\text{Statewide Population}}} \right] + .4 \left[ \frac{\frac{\text{Local AGI}}{\text{Local Population}}}{\frac{\text{Total Statewide AGI}}{\text{Statewide Population}}} \right] + .1 \left[ \frac{\frac{\text{Local Taxable Retail Sales}}{\text{Local Population}}}{\frac{\text{Total Statewide Taxable Retail Sales}}{\text{Statewide Population}}} \right]$$

## Local Composite Index

$$((.6667 \times \text{ADM Component}) + (.3333 \times \text{Population Component})) \times 0.45$$

# Adjustments to Composite Index Considered

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- Population density
- Update weights given to the tax bases
- Combined use of median and average AGI for localities with skewed income distributions

# Population Density Adjustment to the Composite Index

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- Addresses concept of “municipal overburden”
- Argument has been that concentrations of people in small areas contributes to a greater need to provide various services
- As localities with population densities provide services to meet these needs, they have a diminished ability to pay for education
- Statistical analysis for this study indicated that after controlling for strength of local tax bases, localities with high population densities do expend more on services such as public safety and human resources
- An adjustment to the composite index was developed as a policy option to address this concern

# Other Adjustments Discussed in the Report

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## ■ Update weights given to the tax bases in the index

- The weight given to the tax bases in the composite index are based on locality reliance on these bases in the 1970s
- Local reliance on the tax bases has since changed
  - real estate from 50 percent to 44 percent
  - sales tax from 12 percent to 8 percent
  - other local taxes from 38 percent to 48 percent

## ■ Adjust index for localities with skewed income levels

- Some localities have a few taxpayers with high incomes
- An adjustment could be made to take into account both average and median adjusted gross income for such localities



# A Longer-Term Issue: Impact of Car Tax Reimbursements on Local Ability to Pay

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113

- Measures of local ability to pay assume the amount of funds that can be locally obtained is proportional to the local tax effort exerted
- Extent to which localities obtain car tax funds depends on their local effort from tax year 1997
- Two localities with equal ability to pay may have differing tax policies in place in 1997: (1) one locality may have chosen to heavily use this tax, while (2) another similar locality may not have
- The composite index assumes that localities with equal income levels and equal effort can obtain equal revenue
- The ability to pay issue is that for an equal local of current tax effort (none), the first locality obtains substantial funds from the State, but the second locality does not
- In short term, inadequate data are available to adjust the composite index for this issue, but in the longer term, the issue needs consideration

# State Costs for Ability-to-Pay Options

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- The population density adjustment and the adjustment for skewed income levels both are used to adjust local shares downward for localities to which they apply
- Other localities are not penalized by having higher indexes as a result
- The State share goes up, however. State costs for the adjustments in the report for the costs of meeting the SOQ would be about \$35 million per year

# Recommendations

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- ***Recommendation.*** The General Assembly may wish to ensure that the great majority of State funding for education continues to be distributed using a local ability to pay measure to determine State and local shares of public education funding
- ***Recommendation.*** The General Assembly may wish to consider adjusting the current composite index to: (1) provide for a population density adjustment, (2) update the relative weights that are given to the real property, sales tax, and other revenue components, and (3) use a composite index that takes median adjusted gross income into account for localities with skewed income distributions. In addition, if the State continues to pay the local personal property tax, the General Assembly may wish to consider in the future how the composite index could be improved to better address this aspect of local ability to pay

# Illustrative Funding Options

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- Illustrative funding options are discussed in Chapter VI of the JLARC report
- There is an option to fund all of the components contained in Tier One. Additional options provide for various assumptions from Tiers Two and Three as discussed in this briefing package
- An appendix to the report provides preliminary statewide summary sheets with total State and local impacts of the funding options
- Statewide summary sheets and estimated locality-by-locality impacts will be available from the JLARC web site and upon request